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NEW YORK TIMES

18 JULY 1981

Senate Panel to Review Charges on Chief of C.I.A.

By JUDITH MILLER

Special to The New York Times

WASHINGTON, July 17.—The Senate Intelligence Committee today ordered its staff to review charges of financial impropriety against William J. Casey, Director of Central Intelligence.

"We have decided, relative to Mr. Casey, to ask our legal staff to look into whatever matters might be hanging," said Senator Barry Goldwater, chairman of the Senate Select Committee on Intelligence.

After a closed committee meeting, the Arizona Republican told reporters that the inquiry would focus on Mr. Casey's financial dealings, specifically on what he called "the Louisiana transactions."

This was an allusion to a court finding that Mr. Casey had helped to drive Multiponics Inc., an agribusiness concern that went bankrupt in 1971, "deeper and deeper into debt" and had knowingly misled investors in the company.

Other committee members said that the review would also focus on security procedures at the intelligence agency, and on the relationship between Mr. Casey and Max C. Hugel, the agency's former chief of clandestine operations. Mr. Hugel, a Reagan campaign official with little experience in intelligence, resigned Tuesday in the wake of charges that he had participated in fraudulent securities transactions in the 1970's. Mr. Hugel has denied the allegations.

Inquiry to Begin Immediately

Mr. Goldwater said that the inquiry would begin immediately. Two hours later, Stanley Sporkin, the C.I.A.'s general counsel, met with the intelligence committee staff's majority, and mi-

nority directors to discuss procedures for the review. Another meeting is scheduled early next week, a committee official said.

At the same time, Senator Goldwater expressed confidence in Mr. Casey and said that he should not resign. Similar sentiments were expressed by the Senate majority leader, Howard H. Baker Jr. of Tennessee, an ex officio member of the intelligence panel.

"I support him, and I will continue to support him unless information is developed to indicate otherwise," Mr. Baker said in an interview.

Both Mr. Goldwater and Mr. Baker attempted to play down the seriousness of the inquiry, calling it a "review," not a formal "investigation." However, neither precluded a change of heart or a further investigation of Mr. Casey, should there be additional charges of impropriety.

At the White House, David R. Gergen, President Reagan's senior spokesman, said that Mr. Reagan was "very firm" in expressing confidence in Mr. Casey.

Mr. Gergen said that the White House would "cooperate with regard to what questions the committee might have," but added that there was concern at the White House that "this not be blown out of proportion."

Mr. Goldwater agreed, saying: "The press has made a mountain out of a molehill. Now wait until the hill gets big. Wait until the bugs start crawling out of it, and then you may have something, or you may not."

Mr. Goldwater said he had not discussed the charges relating to Mr. Casey or Mr. Hugel with President Reagan. He added, however, that he would

draft a report to Mr. Reagan when the review was complete.

Despite his calm demeanor today, Mr. Goldwater, like other members, was said to have been "furious," according to a committee member, about Mr. Casey's failure to inform the panel about Mr. Hugel's difficulties and about the latest developments in Multiponics investors' charges against him.

Mr. Goldwater acknowledged today that he had raised the issue with Mr. Casey.

"I think he did try to get in touch with me," Mr. Goldwater added, "but I was not available early in the weekend."

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WASHINGTON STAR (GREEN LINE)
17 JULY 1981

CIA Director Faces Probe of Business Deal

By Henry S. Bradsher
Washington Star Staff Writer

Senate Majority Leader Howard H. Baker Jr. said yesterday that the Senate Select Committee on Intelligence plans an inquiry into charges that CIA Director William J. Casey knowingly misled potential investors in a 1968 business venture.

The committee already has launched an investigation into CIA personnel practices that made it possible for Casey's campaign protege, Max Hugel, to become the head of the agency's clandestine operations without normal security checks.

Hugel resigned Tuesday because of allegations of stock market wrongdoing, which he denied.

The committee was scheduled to hold a closed meeting today to hear a report on Casey's first six months as CIA director. At the time his appointment was confirmed by the Senate, Casey had promised to make the report.

Casey was to be out of town today, however, on a trip that he reportedly had planned before this week's controversy arose. His deputy, Adm. Bobby Inman, was scheduled to report to the committee.

The allegation that Casey misled investors, which he has denied, had been known when he was confirmed but escaped scrutiny at the time. It resurfaced in the wake of Hugel's resignation.

Reagan, Vice President George Bush and other senior officials reacted to it Wednesday by reaffirming their support for Casey.

Another charge against Casey surfaced yesterday. Exactly a year earlier, a three-judge panel of the 5th U.S. Circuit Court of Appeals in New Orleans had ruled unanimously that he and other directors drove Multiponics Inc., a now-failed New Orleans farming venture, "deep and deeper into debt" by managing it in a "pattern of self-interest."

Casey's lawyer said Casey lost \$150,000 as a result of the ruling, which led to the company's remaining assets being divided among creditors.

Baker was asked by reporters yesterday about the initial charge of misleading potential investors in Multiponics. "I guess the answer is that there's a degree of concern about it," he replied.

"A number of senators have expressed concern," Baker said. "The [intelligence] committee plans to make an inquiry into that charge."

Sources on the committee said such an inquiry had not been formally discussed before today's meeting. "But, once the senators start asking questions, it can go any way," one source said.

The committee chairman, Sen. Barry Goldwater, R-Ariz., was described by aides as not seeking such an inquiry, contrary to earlier reports.

Goldwater was reported to have been angry and upset when first the Hugel case and then the charges against Casey surfaced.

"He was angry that he didn't get a 'heads up' before it hit," one aide said, meaning a warning from the White House after it learned about the Hugel problem.

But after that Goldwater took the attitude that Casey's problem was up to the White House to handle, according to aides and committee staffers. A source noted, however, that "If the majority leader feels that way [that an inquiry about Casey should be made], it's likely to emerge in time."

The inquiry on the Hugel case is focusing on actions of the CIA's Office of Security. Instead of the normal laborious investigation of anyone being put into a sensitive job, Hugel got only a quick check that failed to turn up what Hugel later described as a blackmail attempt by his accusers.

Blackmail is considered a very serious matter within the agency. A person subject to it would normally be considered a poor security risk and not given a sensitive position.

Hugel had worked for Casey while Casey was Reagan's presidential campaign director. After several months, Casey made the New Hampshire millionaire businessman his deputy director for operations—the spymaster for the CIA's most secret activities.

The appointment appalled most CIA career men. There was general satisfaction at CIA headquarters when Hugel was suddenly and unexpectedly replaced by one of their own, professional CIA agent John Henry Stein, who had been a deputy spymaster for four years.

Senate committee sources said a preliminary report on the investigation into Hugel's clearance is expected before Congress goes on vacation early in August.

Washington Star Staff Writer Roberta Hornig con-

CIA : Loyal campaign aides don't necessarily make good spymasters

THE REAGAN administration's practice of putting loyal campaign workers into high government posts is not working out well at the Central Intelligence Agency. Nor is the CIA itself working very well. If the agency's investigation of two prospective appointees had been at all thorough, it would not now be involved in a mess that includes both the CIA's spymaster and the agency's head man himself.

The spymaster in question is Max Hugel, who was at one time a student at the University of Michigan and was active in President Reagan's New Hampshire campaign and later in the national campaign headquarters. There was widespread surprise, even disbelief, when Mr. Hugel was picked two months ago to be deputy director of operations at the CIA, a post that put him in charge of clandestine operations and gathering worldwide intelligence. Now Mr. Hugel has been accused of slipping inside information about a firm he once headed to two Wall Street brokers who used the dope to advise their clients.

Mr. Hugel has already resigned and has been replaced by a CIA career man, much to the relief of a number of people inside and outside the CIA. Mr. Hugel's experience in intelligence-gathering was one step above that of a Boy Scout senior patrol leader.

The CIA director, of course, is William J. Casey, the president's campaign manager last fall. Coincidental with the accusations against Mr. Hugel, a federal judge has found that Mr. Casey knowingly misled investors in a farming corporation of which he was secretary and a director.

Mr. Casey is still holding his position and it remains to be seen whether President Reagan will be sufficiently embarrassed by the new disclosures to ask him to step down.

The president is somewhat annoyed by the fuss over Mr. Hugel, remarking that "once again" an accusation has been taken as a conviction. The accusation was suffi-

ciently strong, however, to stir enough rumbling so that Mr. Hugel was leaned on heavily to quit fast and minimize the damage to the CIA and the administration.

The administration's problems with Mr. Casey, however, may turn out to be much more serious. Hearings on his alleged complicity in the corporate farming scam began after a civil suit was filed against him in 1974. In May, a federal court held that Mr. Casey has "omitted and misrepresented facts" to investors. Mr. Casey's lawyers have asked for a rehearing on that portion of the case.

The CIA is an important instrument of government policy and has been badly damaged by revelations of unwise personnel practices and meddling in the affairs of other nations. The attempts to make it more effective are certainly going to be hampered by the appointment of persons under suspicion of fraud to run it.

Mr. Reagan cannot be faulted for wishing to be surrounded by old friends. But he should know a little more about some of them than he evidently does.



Hugel



Casey

More shadows cast on the CIA

CHICAGO TRIBUNE
17 JULY 1981

Senate panel eyes probe of CIA chief on business deals

By James Coates
Chicago Tribune Press Service

WASHINGTON—Members of the Senate Judiciary Committee are considering whether to investigate the past business dealings of CIA director William Casey, including possible dealings with fugitive financier Robert Vesco.

A spokesman for Sen. Dennis DeConcini (D., Ariz.) confirmed that DeConcini on Wednesday began "exploring" whether Republicans, who control the Senate, will authorize funds to conduct an investigation.

DeConcini, along with Judiciary Committee colleague Sen. Orrin Hatch (R., Utah), has conducted investigations into efforts by Vesco to influence top administration figures since the Nixon years.

It was learned DeConcini started negotiating with his colleagues after noting that one company that joined Casey in a controversial farm product scheme between 1968 and 1971 was controlled by Investors Overseas Services (IOS); the mutual fund Vesco is charged with looting of more than \$200 million.

IOS REPORTEDLY owned nearly 10 per cent of the company, Multiponics, Inc., through an IOS subsidiary—IIT, a Geneva-based mutual fund.

It was disclosed Tuesday that a federal judge in New York ruled in May that Casey had misled Multiponics investors by not telling them that large amounts of the company's assets were being used to guarantee his own mortgage.

Reacting to published reports about the unfavorable court ruling Wednesday, President Reagan said through a spokes-

man, "I retain full confidence in Mr. Casey."

Deputy White House press secretary Larry Speakes said that presidential counsel Fred Fielding approved Casey's nomination to head the Central Intelligence Agency after "reviewing" the Multiponics case.

"These matters came up in the past, as far back as 1973," Speakes said. "They've been the subject of at least one and possibly two Senate hearings. They were part of what we knew when Mr. Casey was appointed to the directorship of the CIA."

(Publicity about the New York case was followed Wednesday by reports of a second critical court ruling concerning Casey's management of Multiponics.

(In a July 1980 decision, the 5th U.S. Circuit Court of Appeals in New Orleans ruled against Casey and other directors of the firm, saying they had driven the defunct corporation "deep and deeper into debt" by managing it in a "pattern of self-interest."

(The New Orleans case involved an attempt by the directors to claim part of the failed company's assets. A court-appointed trustee for Multiponics opposed the bid, and the appeals court upheld him. An appeals court judge said evidence supports the contention that "the founding officers and directors engaged in an 'overall pattern of self-interest.'")

CASEY HAS been confirmed by the Senate for four top-level jobs, and during some of these hearings he has been questioned about his role in urging the Securities and Exchange Commission's chief investigator, Stanley Sporkin, to postpone a SEC probe of Vesco.

PHILADELPHIA BULLETIN
17 July 1981

OUR VOICE

CIA-gate: One down, one to go

Few presidents escape office without being embarrassed by the incompetence or dishonesty of some of their political appointments. It is one of the weaknesses of the system.

No background check prepared Jimmy Carter for the Bert Lance scandal, or Lyndon Johnson for Walter Jenkins, or Dwight Eisenhower for Sherman Adams. President Reagan, as we have mentioned here before, seems due for more than the normal share of embarrassments. The President, unfortunately, has displayed myopic judgment about many of his key appointments.

The first to hit the fan since the flap over State Dept. nominee Ernest Lefever resulted this week in the departure of Max Hugel, the inexperienced spymaster of the Central Intelligence Agency.

With what appears to be an admission of guilt, Hugel resigned amid charges that he fed inside information to favored investors to manipulate the value of electronics stock. Hugel protested that the charges by two former business cronies were "unfounded, unproven and untrue." The speed with which he resigned, and the swiftness with which his CIA boss, William J. Casey, accepted his resignation imply otherwise.

Hugel should not have been appointed to the job to begin with. His qualifications seem to have been simply that he was a self-made millionaire, fund-raiser and organizer in the Reagan presidential campaign, and his chief supporter and defender was his boss. As cynical as it sounds, Hugel's inside wheeling and dealing was the first indication that he might have more to offer the spy business than his experience indicated.

CIA Director Casey himself may be in for rough weather, too. In a ruling that caught the Reagan Administration napping, a federal judge in New York decided that Casey knowingly participated in a 1968 investment fraud that

"omitted and misrepresented facts" about Multiponics Inc., a farming and land speculation outfit. Casey was not only secretary and a director of Multiponics at the time. He was also head of the Securities and Exchange Commission, with which the stock was registered. The largest investor in Multiponics was an investment trust controlled by Investors Overseas Services, the company later acquired by accused New Jersey swindler Robert L. Vesco, who fled the country and has been living in exile in Latin America.

On the heels of these unsettling disclosures, it was revealed 24 hours later that three judges in New Orleans ruled *a year ago* that Casey and others drove a now-defunct farming corporation deeper and deeper into debt through their own self-interest.

Casey has hardly covered himself with glory in any of this. In an apparent attempt to distance himself from the man he picked for the spymaster job, Casey told reporters he really had not known Hugel 20 years, as both said earlier, but only *17 months*. So much for loyalty to an "old" friend.

Worse, it was revealed that Casey, in a sworn financial statement to the Senate Intelligence Committee last January, listed the New York case but omitted the one in New Orleans. Further, he also left his own boss in the dark. White House aides insisted the President first learned of the New York case from news reports, not from his trusted friend, adviser and CIA chief, Bill Casey.

How Hugel and Casey got through the background-and-security check isn't clear at this point. If Casey wants to save the President further embarrassment, he will promptly resign. If Reagan wants to avoid future embarrassment, he should check the investigators who are charged with investigating his appointments.

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FOR PUBLIC AFFAIRS STAFF

PROGRAM Senator Goldwater Commentary STATION WRC Radio

DATE July 17, 1981 7:20 AM CITY Washington, DC

SUBJECT Intelligence Committee Hearings on CIA Personnel

KEN ALVORD: Senator, a committee you're vitally involved with beginning a preliminary inquiry into allegations of financial misconduct by, among others, CIA Director William Casey. What can you tell us going into this?

SENATOR BARRY GOLDWATER: Well, about all we're doing is to check into why the committee was not informed of the wrong-doings of Mr. Hugel that resulted in his leaving the service the other day. We're not investigating Mr. Casey or anybody else. We want to know why newspapers, or a newspaper knew about this on, I think, Friday, and we, the committee, didn't learn about it till we picked up the newspaper on Monday morning.

Outside of that, the meeting will just be a regular pro forma meeting to do the things we usually do.

ALVORD: Well, rumors have been strong that there is some pressure within the committee to also -- to take a look at the past financial dealings of Mr. Casey. Do you feel that that would be productive?

SENATOR GOLDWATER: Well, there's a lot of rumors going on, but they're all started by the press. I'm chairman of the committee. I know what's going on. And what's going on, going to go on is not what the press says.

If anything comes up that would require another look at Mr. Casey, naturally he would be looked at. But really, the purpose of the meeting this morning is not for that purpose.

ALVORD: All right. Let me ask you, Senator Goldwater, your reactions to some court rulings that have been critical of

Mr. Casey's connections with that now defunct company down in New Orleans, Multiponics Incorporated, etcetera. Does any of the material that you've heard or seen raise questions in your mind that you think require any further consultation?

SENATOR GOLDWATER: Well, of course, Mr. Casey told all of us those things when he became head of the CIA. Now, if there's some reason to believe he didn't tell enough, that would require another look at. But the reports that he made to the committee are rather consistent with the reports that he has made right along.

As I say, if something comes up that requires another look, we'll take another look. But so far there hasn't been anything that's come up.

ALVORD: There has been some concern raised, and I presume that is part of today's subject, about the conduct of the CIA investigation for this highly sensitive post of head of clandestine operations for Mr. Hugel. One would expect, I guess it's reasonable to expect, that that kind of security check should reveal what apparently was fairly easy to find out, and that is that there were some charges against him, true or untrue.

Does this shake your faith in the CIA's ability to unearth facts that might be even more important about someone being considered for a sensitive job, Senator?

SENATOR GOLDWATER: Well, it was -- it is the most sensitive post in the CIA. And there were many of us who didn't like the idea of a man with no background at all in intelligence receiving that.

But, at the same time, Mr. Casey has had the right to appoint anybody that he wanted to. And we did not hold hearings. Hearings were not required. Mr. Casey's man was automatically named that. He was named that, I will say, over objections of certain members because we felt the man should come from the ranks and should have had experience, which he didn't have.

So, as I say, our reason for meeting is to find out why the committee was told of these things that turned up before we were. We had to learn about them from the newspaper.

ALVORD: Okay. Thank you, Senator.

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BOSTON GLOBE
 17 JULY 1981

Undercover games at the CIA

ROBERT HEALY

WASHINGTON — For those who do not get to the last line of investigative stories, the latest pieces on the Central Intelligence Agency are about two wheeler-dealers.

Max Hugel, who resigned from CIA's most sensitive job as head of the clandestine service, has had his own stock market sting game, according to allegations by two former business associates. Two Wall Street brokers say he tried to hype the stock of his own company by giving brokers who were peddling the stock inside information about the company before the information "hit the broad tape," as they say on Wall Street, and that he made secret loans to the brokers who were selling the stock, a practice not endorsed on Wall Street.

That "Hugel sting" was simple: beat the guys who were buying his stock.

Hugel is now gone.

The record of the case against CIA Director William Casey also reads very much like a con game. Casey invested heavily in a company called Multiponics, which consisted of seven operating farm units said to be operated by an experienced group of agricultural, managerial and financial entrepreneurs. Multiponics, in picking up the properties, also picked up a lot of the mortgages. Nowhere in the initial offering for the company did it state that the company had assumed the multimillion dollar debt

of its founders, including Casey. Further, the farm operation of the company was something less than described.

The judge in the case said, in effect, that the defendants, including Casey, knew what they were doing about the misstatements and omissions in the prospectus. Though not as blatant as the Hugel sting, the Casey operation smacks of sharp practice.

And William Casey remains as head of CIA.

This is all sophisticated stuff. It is not like someone walking into a bank and holding it up. But frequently the stakes are larger.

Neither Hugel nor Casey will go to jail for this kind of operation. Wall Street has never policed its operation that way.

Nor will the Reagan government fall because of the Hugel or Casey affairs.

But Reagan has shot himself in the foot in this CIA affair. It was his appointed mission to bring credibility and restore morale and dignity to the CIA.

Casey, according to testimony in the 1974 Watergate trial of Richard Nixon's former Attorney General, John Mitchell, and Secretary of Commerce, Maurice Stans, attempted to postpone an investigation by the Security and Exchange Commission, of which he was Nixon's appointed chairman, into the affairs of financier Robert Vesco. Vesco is charged with looting more than \$200 million from Investors

Overseas Services, a mutual fund, and fleeing the country.

Casey testified at the Mitchell trial that he asked the Enforcement Division officer, Stanley Sporkin, now counsel at CIA, not to take depositions in the Vesco case until after the 1972 election. He made the request on the day that Vesco contributed \$200,000 in cash to President Nixon's re-election campaign. Sporkin says he ignored Casey.

For the President, this is a serious matter. He is more and more being perceived as an agent of big business.

At the Justice Department, Attorney General William French Smith has declared open season on violent crime. In his nomination hearings before the Senate, the implication was that there would be a major shift from the Carter Administration's war on white-collar crime, such as fraud, to violent street crime.

In Congress they speak openly these days of the Reagan Administration's relaxation of the antitrust laws which will allow mergers and concentration of industries.

The Casey and Hugel affairs will only add to the perception that business can do no wrong in the eyes of the Reagan Administration.

And of course Hugel should not have passed a security clearance for the post office, much less CIA.

Robert Healy is The Globe's Washington bureau chief.

17 July 1981

2d court raps Casey

Washington (News Bureau)—A second federal court ruling surfaced yesterday harshly criticizing the tangled financial dealings of William J. Casey before he became director of the Central Intelligence Agency.

Casey's future as CIA chief was further clouded by news that members of the Senate Judiciary Committee were considering whether to investigate his past business dealings, including possible involvement with fugitive financier Robert Vesco.

The Chicago Tribune said that Sen. Dennis DeConcini (D-Ariz.), a member of the committee, had started negotiating with his committee colleagues after noting that one company that joined Casey in a controversial farm-product scheme between 1968 and 1971 was controlled by Investors Overseas Services, the mutual fund Vesco is charged with looting of more than \$200 million.

IOS REPORTEDLY owned nearly 10% of the company, Multiponics Inc., through an IOS subsidiary—IIT, a Geneva-based mutual fund.

A spokesman for DeConcini said that he was "exploring" whether Republicans, who control the Senate, would authorize funds to conduct an investigation.

CBS News reported that Sen. Barry Goldwater, DeConcini's Republican colleague from Arizona, had told members of his Senate Intelligence Committee that Casey should be replaced.

But Goldwater's spokesman, Katherine Grammer, said he had called the CBS story "a malicious lie" and told her: "I haven't told my colleagues anything. I think Casey's all right."

Sen. Daniel P. Moynihan (D-N.Y.), vice chairman of the Intelligence Committee, has not commented on Casey's legal problems. He has been sharply critical of the CIA's handling of the case of Max Hugel, the CIA spymaster hand-picked by Casey.

HUGEL RESIGNED Tuesday after The Washington Post printed allegations by two New York stockbrokers that they had participated with Hugel in 1974 in prohibited maneuvers to boost the stock of a firm Hugel once owned.

Hugel denied any wrongdoing but quit his CIA post under increasing pressure from the White House.

Casey, 68, and other businessmen were blasted in a year-old federal

deals

appeals court ruling in New Orleans, disclosed yesterday by the Associated Press, for managing Multiponics, a now-defunct New Orleans farming corporation, in an "over-all pattern of self-interest" that drove the concern "deeper and deeper into debt."

A New York federal court ruling—dated May 19 and disclosed by the Daily News on Tuesday—said that Casey and other Multiponics directors had knowingly misled potential investors in 1968.

AFTER THE NEW York ruling became known, President Reagan, Vice President Bush and White House counselor Edwin Meese 3d discounted that ruling and affirmed their support for Casey. Now the New Orleans ruling also is out in the open.

In it Judge John R. Brown, writing for the 5th U.S. Circuit Court of Appeals, said that a special master found, "and the record supports his findings, that the founding officers and directors (of Multiponics Inc.) engaged in an 'over-all pattern of self-interest.'

The New Orleans ruling, which was handed down on July 16, 1980, stemmed from a move by Casey and other directors of Multiponics to claim part of the failed company's assets to repay personal loans they had made to the company.

White House Deputy Press Secretary Larry Speakes acknowledged that Reagan first had learned of the New York ruling by reading press reports Tuesday.

IT WAS UNCLEAR whether top administration officials were aware of the New Orleans decision when they took the line that Casey's business dealings did not affect his CIA job.

Speakes said that Casey had listed the New Orleans ruling on disclosure forms submitted to the White House before his nomination by Reagan as CIA director last January.

The White House insisted that Casey's legal problems with Multiponics did not affect his directorship of the CIA.

"There is no controversy," the President told reporters on Wednesday night. "I have complete trust in him."

Bush, asked if Casey should resign, replied: "Oh, no!" and Casey's attorney said the CIA chief "denies any misconduct."

The President called Casey on Wednesday "to reassure him he had full confidence" in the director, Speakes told reporters.

ACCORDING TO Speakes, Casey informed White House counsel Fred Fielding about the civil litigation involving Multiponics on a form which government appointees must complete before their nominations are forwarded to the Senate. At that time, Fielding decided to allow the nomination to continue.

But the information that Casey provided for the Senate Intelligence Committee before his nomination hearings last January was decidedly sketchy. According to committee sources, it consisted of one terse paragraph.

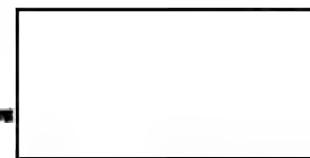
According to Casey's lawyer, Milton Gould, the CIA director lost \$150,000 in the Multiponics venture.

MULTIPONICS FILED for reorganization under the Bankruptcy Act three years after its founding in 1971.

In January 1973, a lawyer for the trustee in bankruptcy filed a motion arguing that all other creditors should take precedence over Casey and the other directors who were seeking repayment of personal loans they had made to the company, because their management had contributed to the company's difficulties.

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ON PAGE 1THE WALL STREET JOURNAL
17 July 1981

What's News—

* * *

World-Wide

A former Army officer pleaded innocent to charges that he sold secret U.S. coding information to the Soviet Union. If convicted, Joseph Helmich faces life imprisonment or death. He is being held on \$500,000 bond.

Washington Wire

DEMOCRATIC ATTACKS on vulnerable Reagan appointees promise to intensify.

The resignation of CIA spymaster Max Hugel, following reports of unethical business activities, encourages the critics. CIA chief Casey becomes a prime target; even GOP Sen. Goldwater is dissatisfied with him. Democrats, who have merely muttered about possible conflicts of interest involving strip-mining nominee Harris and Forest Service appointee Crowell, may begin to holler.

Some Republicans in Congress fret about slip-ups in checking nominees' backgrounds. They complain that the White House counsel's office is weak, seeing that as the trouble in the ill-fated effort to name Ernest Lefever as human-rights chief. "I worry there are number of scandals just waiting to be discovered," says a GOP strategist on Capitol Hill.

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THE WASHINGTON POST
17 July 1981

"WE HAVE COMPLETE CONFIDENCE
IN WHAT'S-HIS-NAME HERE"



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THE CHRISTIAN SCIENCE MONITOR

17 July 1981

Reagan assurances cool down Casey affair

By Godfrey Sperling Jr.
Staff correspondent of
The Christian Science Monitor

Washington

The questioning of CIA Director William J. Casey concerning his past financial activities appears to be subsiding.

President Reagan has telephoned Mr. Casey and expressed complete confidence in his integrity. To reporters, Mr. Reagan has said of Casey: "I have complete trust in him."

The questioning, from both Congress and the press, was prompted by the disclosure of a finding by a federal judge in New York. The judge held that Casey had misled investors in a fund-raising

effort while serving as a board member and secretary of a now-defunct New Orleans company.

Casey, who did not at first respond to questions about his conduct, now says, "I didn't mislead anyone. I didn't prepare the circulars."

White House officials say the facts of the case were known to them before the Casey appointment, and that the same information was discussed in 1973 when Casey was confirmed to be undersecretary of state and in 1975 when he was named to the Export-Import Bank.

The ruling of the New York judge is on appeal — and there apparently is no information yet available on just when the appeal decision will come.

"Remember," a White House aide

said July 16 in a conversation with the Monitor, "this is a civil case. There is no criminal action involved."

But would the President change his determination to keep Casey if the appeal goes against him? "We'll just have to wait and see," was the reply.

Reagan is known to be particularly fond of the CIA director — and grateful for his help during the 1980 campaign.

As the President sees it, it was Casey who brought good management to the campaign and put the campaign spending operation in order.

Reagan also is known to seek Casey's advice on a wide range of subjects, not necessarily those that narrowly focus on the CIA.

YOUNGSTOWN VINDICATOR (OH)
17 July 1981

“Hugel Affair” Demands Explanations

The resignation of Max Hugel, the CIA's spy chief, only hours after *The Washington Post* reported his involvement in allegations of stock manipulation, and a judge's ruling that CIA Director William Casey misled investors in another business venture, have set back the intelligence agency's recovery of public confidence.

Despite the negative aspects of the latest developments, the agency's own interests would best be served by a candid, objective appraisal of all the matters and individuals involved. Ahead of such an investigation, now promised by the House and Senate Intelligence Committees, “Casey must go” calls such as that voiced by Sen. Barry Goldwater would appear to be a bit premature.

Casey's own quick acceptance of Hugel's resignation and his haste to put some distance between himself and the man he personally picked for the crucial “spymaster's” post suggest a determined effort to dispose of the “Hugel fiasco” as quickly as possible.

Still the possibility of a “Casey affair” remains, despite President Reagan's expression of full confidence in the CIA director who had served as his campaign manager. Reagan's assurance, seemingly given as a matter of course, recalls similar statements made by previous presidents about other high-ranking aides in trouble.

There are serious, and curious, considerations involved which require explaining. Why did Casey appoint a political chum he insists he had known for only 17 months (not 20 years as Hugel told *The Post*), to a super-sensi-

tive post that cries out for an experienced intelligence professional — like John Stein, whom Casey named to succeed Hugel? (Hugel, a New Hampshire businessman, caught Casey's eye in Reagan's campaign as an organizer of ethnic groups.)

Why wasn't the president told about Casey's legal problems and the broader problems of Hugel's and Casey's possible financial misconduct? They should have been considered of sufficient import even for less significant posts, let alone the No. 1 and No. 2 posts in the CIA.

How did the CIA clearance procedure fail to disclose a blackmail threat from Hugel's former business associates? If the administration believes that Hugel is simply a “victim” of circumstances then why not go to bat for him all the way, and never mind the tapes given to *The Post* that implicate Hugel?

As for the lawsuits and judge's ruling involving Casey, can Casey be held any less accountable for his behavior than Hugel? And how did both the press and the White House overlook that tough judicial finding last May?

Still, Casey's reign at the CIA has, in the main, won praise even from critical quarters. But his choice of Hugel drew swift and authoritative fire.

Word that the White House also was concerned about Hugel's selection suggests that prudence yielded to politics in an area where politics has no business.

Clearing the air is the only way to remove the latest cloud over the CIA.

Damaged Assets at 'the Company'

The Central Intelligence Agency belied its name in the peculiar matter of Max Hugel. Director William Casey was unwise to appoint his ill-prepared political chum as chief of clandestine operations. But it is scarcely intelligible that the clearance procedure failed to discover a blackmail threat from Mr. Hugel's former business associates. That requires some explaining. And Mr. Casey, it now appears, has some further explaining to do about his own role in a bitter shareholders' dispute.

Mr. Hugel had to resign once The Washington Post was given tapes that implicated him in sharp market practices. He says allegations of wrongdoing are untrue and unfair. But he concedes that he did not inform the agency of the risk of "blackmail" by his accusers — a lapse that only confirms him as unsuitable for such a sensitive post.

Of the agency's assets, none is more precious than trust, which was damaged enough by past revelations of covert excesses. It now develops that even the White House was startled when Mr. Casey chose as his chief spymaster a New Hampshire business-

man unfamiliar with both Washington and intelligence operations. So the Reagan team, too, put political debt ahead of prudence.

Mr. Casey was right in swiftly replacing Mr. Hugel with an experienced operative, John H. Stein. But the lesson of this affair is not that only professional insiders can hold such jobs. Professionals, too, can be encumbered by past affiliations and performance; indeed, insiders may have played a mischievous part in humiliating Mr. Hugel. He has been removed at a point that should never have been reached. He was not qualified to begin with.

That is not the problem with Mr. Casey, who has some intelligence experience and served in several high Federal posts before he became Mr. Reagan's campaign strategist. But he is again haunted by an old charge of misrepresenting investment information, in a decade-old civil action. If Mr. Hugel was held accountable for the probity of his business dealings, Mr. Casey cannot long refuse comment about his. If the cases are clearly different, let him state why and chase these sorry clouds.

A VIEW FROM WASHINGTON

CIA Chief Set Back In Bid for Low Profile

By Jim Klurfeld

Newsday Washington Bureau Chief

Washington—Front-page headlines about the resignation of the CIA's deputy director of operations—America's superspy—is not exactly what William Casey had in mind. Since he took over the agency six months ago, the thrust of almost all his actions has been to return to the days of the cloak and dagger.

"The difficulties of the past decade are behind us," Casey said in an internal CIA newsletter two weeks ago as he announced that the agency's contacts with the public, the press and the Congress would be sharply curtailed. "The time has come for CIA to return to its more traditional low public profile."

To achieve that objective Casey has scuttled the agency press office, cut back on the congressional liaison staff, asked that the agency be removed entirely from the provisions of the Freedom of Information Act, and is in the process of rewriting an executive order for the President that would remove some of the restrictions placed on the agency in the wake of the mid-1970s intelligence scandals.

At the same time, Casey, the 68-year-old former OSS officer during World War II, has made it clear he believes that the operations side of the agency must be revitalized. Government officials familiar with foreign policy and intelligence matters say the agency is gearing up to increase the number and scope of covert operations in such sensitive areas as Afghanistan, the Persian Gulf, Central America and the Caribbean.

The resignation of Max Hugel as deputy director of operations will only make it more difficult for Casey to achieve his objectives.

Casey himself is in the headlines because of a judge's ruling that he and others misled investors in a 1968 stock deal.

Even before the Hugel case surfaced this week,

many CIA observers, in Congressional oversight, concern about the direction taking the agency. The back to the "good old days" invisible and uncheckable.

In fact, Hugel's appointment was controversial and widely known in the intelligence community and was being placed in what is regarded as the most sensitive of intelligence positions. And now it has been revealed that his background was not thoroughly or adequately checked.

Casey is asking for less restriction and oversight, but the Hugel case only emphasizes the CIA's fallibility. Even a supporter of a stronger, more traditional CIA such as Sen. Daniel Patrick Moynihan (D-N.Y.), cochairman of the Senate Intelligence Committee, said yesterday, "The administration must ask itself how it allowed this disaster to come about in the first instance."

Another intelligence committee member is more concerned about the general direction of the CIA. "The jury is still out on Casey," Sen. Joseph Biden (D-Del.) said. "But some things are becoming clear. He much prefers to operate in the dark than in the light. And his instinct, I believe, is to limit rather than increase access and cooperation . . . That is a disturbing trend."

Biden and others say they are particularly concerned because the agency has become less forthcoming with the congressional committees. Agency witnesses are not volunteering information and the chairman of the committee, Sen. Barry Goldwater (R-Ariz.), is keeping more things to himself.

There is concern about the executive order because in earlier drafts the administration proposed easing the restrictions for spying on American citizens and dropped the requirement that the National Security Council be informed of all CIA operations. Both were reforms designed to eliminate abuses uncovered in the past.

And Biden and others question whether Casey and other members of the administration appreciate the limitations of covert operations and the possibilities for abuse—the agency was criticized by special Congressional committees in 1975 and 1976 for attempted assassinations, opening mail of American citizens and disregarding other Constitutional rights.

CONTINUED

There is also concern that Casey is allowing political considerations to affect the agency's work—the example often cited is the recent CIA report on international terrorism that Casey ordered rewritten when it did not appear to support the administration's claim that the Soviet Union was behind most terrorism incidents.

But there has also been praise for Casey. With the notable exception of Hugel, he has been applauded for his appointments, especially Adm. Bobby Inman as the agency's deputy director and former Securities and Exchange official Stanely Sporkin as general counsel.

And they are many people across the political spectrum who believe that an increased covert capability is desirable. Moynihan says his concern is more that the agency improve its capabilities rather than worry about the alleged abuses of the past. The problem, says Moynihan, is that the agency has been so demoralized it has not been effective.

"The intelligence community in general and the agency in particular, I think, have been coming back to pretty good shape," Moynihan said. "Condition, muscle tone—they were in a state of shock in the mid-seventies, morale was very bad. . . . My interest has been how to keep this organization vital and regenerated over time. How do you keep an intelligence agency thinking? I think they are doing a somewhat better job now."

And even as persistent a critic as Morton Halperin, the director of the liberal Center for National Security Studies, says that covert operations can be an important aspect of American foreign policy.

"As an adjunct to policy, covert operations have their place. I just think they are dangerous when they are used as a substitute for public debate on a policy," said Halperin.

The challenge for Casey, according to Halperin and others, will be to go back into the covert operations business without getting the agency into trouble again. Some believe that is why Casey brought in a tough regulator like Sporkin to be the agency's counsel.

Indeed, most observers of the CIA, including Moynihan, believe that Casey is so interested in covert operations himself that in essence he has been functioning as the deputy director of operations (known in the agency as the DDO). Hugel was there more as an administrator.

A further indication of the emphasis on covert operations was a recent ad that ran in The New York Times. On an outline of a eagle, it said: "The Central Intelligence Agency may have a career for you. It is not a career for everybody. It is a career for a few very special bright men and women with talent, skills, self reliance, self-discipline and initiative who seek exciting, challenging situation that demand critical on the spot decisions."

While the CIA has been running recruiting [REDACTED] 1
obvious attempt to recruit field officers—spies—as opposed to analysts or administrators. CIA experts say the covert ability of the agency had been ordered cut back over the last five years and that one of Casey's top priorities has been to increase the budget and size of the operations division. In fact, while there is much talk of increasing covert operations, Biden says that the number of activities that have been brought to the intelligence committee have not significantly increased since the Reagan administration came to power.

The new director is also trying to improve intelligence produced by the CIA. Frequently the agency intelligence reports have been criticized for being too homogenized, too much a product of a bureaucratic process, and lacking in political sophistication. In a speech to the U.S. Chamber of Commerce April 28, one of his few public appearances, Casey outlined his approach. He said that while the intelligence community had great ability to collect data, there was a need to improve the analysis of the data.

Casey is encouraging direct dissent in intelligence papers. He has also begun a major experiment integrating functional bureaus. Instead of having separate offices on South American economies and politics, for instance, the political and economic analysts in a particular geographic area will work together.

"There seems to be a serious effort to improve analysis," said Halperin, a former national security adviser for President Richard Nixon.

But there is concern about the way at least some analysis has been handled, especially the terrorism report. Early in the administration, Secretary of State Alexander M. Haig Jr. charged that the Soviet Union inspired and backed most world terrorism. An early draft of the CIA's annual terrorism report did not seem to back Haig's contention. But Casey asked that another draft be written. The new report claimed there had been 6,714 terrorist incidents between 1968 and 1980—more than twice as many as last year's report had counted. Since there were only 760 incidents in 1980, it meant that the agency had produced the new figures by reclassifying previous data and linking the Soviet Union with many of those newly discovered incidents. That was accomplished by introducing new categories—"threats," "hoaxes," and "conspiracies."

Despite its past problems the CIA has always had a reputation for supplying objective data. This report has raised questions about political influence, according to at least some outside experts.

Reagan Tells 'Full Confidence' in Casey

Shrugs Off Court Ruling That CIA Chief Once Misled Investors

By GEORGE SKELTON, *Times Staff Writer*

WASHINGTON—President Reagan expressed "full confidence" Wednesday in William J. Casey, director of the Central Intelligence Agency, and shrugged off a federal judge's ruling that Casey once knowingly misled investors in a company he partly owned.

The ruling in New York by U.S. Dist. Judge Charles Stewart actually came last May. But Reagan did not learn of it until Tuesday, and then only through press reports relayed by his staff, the White House said.

The judge's decision in a civil case came to light in conjunction with news reports concerning Max Hugel, the CIA chief of clandestine activities who resigned Tuesday in the wake of published charges that he had engaged in improper stock market activities seven years ago. Hugel denied the charges.

Questions Raised in May

Questions were raised in May when Casey appointed his longtime friend, Hugel, to the sensitive spymaster post, because Hugel lacked previous intelligence experience. In 1980, Hugel had held a middle-level post in the Reagan presidential campaign organization, which Casey directed.

The White House Wednesday portrayed the President as undaunted by questions that could be raised about Casey's wisdom in appointing Hugel and Casey's in-

volvement a decade ago in a \$3.5-million fund-raising effort for a New Orleans agribusiness firm while he was serving as a board member and secretary of the concern.

The judge ruled that Casey and seven other directors of the now-bankrupt firm misled investors by, among other things, withholding information that the firm, Multiponics, had made loans to some of its founders, including Casey. Casey and the other defendants have disputed the judge's ruling and asked him to reconsider it.

Case Subject to Appeal

"The President retains full confidence in the director of the Central Intelligence Agency," said White House spokesman Larry Speakes, adding that the Administration would have little to say about the court case because it was "subject to further appeal."

Reagan personally expressed his "full confidence" in Casey during a telephone call to the CIA director Wednesday, Speakes said.

When Speakes was asked during the daily White House press briefing whether there was a possibility of Casey's "stepping aside" from his directorship until the court case was fully litigated, Speakes answered: "Well, we have elected not to do that."

Asked to identify "we," Speakes responded: "The President. He

made it (the decision) yesterday afternoon when these matters were raised and he continues the determination as of this moment."

Later, however, Speakes was handed a note by another press aide and subsequently told reporters he wanted "to correct a misimpression that there was a need for a presidential decision" on whether Casey should remain on the job. All that happened, Speakes said, was that "the President decided that he had full confidence in the director."

The White House position on the court case was that the plaintiffs' charges against Casey represented nothing new, that they had been discussed over the years during Senate confirmation hearings into previous federal posts Casey was appointed to.

Before Reagan named Casey as CIA director, Speakes said, the court case data was reviewed by presidential counsel Fred F. Fielding.

But that was before the May court ruling against Casey. Speakes was asked what Reagan's reaction would be if the court decision is not reversed.

"We'll just wait and see what happens," Speakes replied.

When a reporter asked Reagan late Wednesday about "the Casey controversy," the President replied: "There is no controversy. I have complete trust in him."

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ON PAGE A-1

WASHINGTON POST
16 July 1981

'17 Months, Not 20 Years'

Casey Says He Knew Hugel Briefly

By Lou Cannon
Washington Post Staff Writer

CIA Director William J. Casey yesterday hastened to put some distance between himself and Max Hugel, his former chief of clandestine operations, maintaining that he had known Hugel "for only 17 months, not 20 years," as Hugel had contended.

When Casey appointed Hugel to one of the most sensitive posts in the agency, he defended his controversial action on the grounds that they had had a long and trusting relationship. In a telephone call to The Washington Post yesterday, however, Casey backed off considerably from this contention, and disputed Hugel.

When Hugel, who resigned from the CIA Tuesday, met with Post reporters and editors with his lawyers Monday, he was asked how long he had known Casey.

"About 20 years," Hugel responded. "We lived in adjacent towns in New York, on Long Island, and we were both active in local Republican politics." The activity included an unsuccessful run by Casey for a congressional seat in 1966.

Casey, told that Hugel had said he had known him for 20 years, replied, "Maybe he knew about me."

Casey's comments were his first on the matter since The Post reported Tuesday that two former Wall Street stockbrokers who had engaged in business with Hugel accused him of improper or illegal stock-trading practices. Hugel denied the charges, but resigned from his sensitive CIA post, and was replaced immediately by a career intelligence officer.

Yesterday, Casey also took issue with the findings of a federal judge in New York, who held that Casey knowingly had misled investors in a \$3.5 million fund-raising effort for a now-defunct New Orleans company while serving as a board member and secretary of the firm.

Judge Charles E. Stewart Jr. found that Casey was one of a number of officers and directors of Multiponic Inc. who permitted distribution of an offering circular they knew contained false and misleading information.

"I didn't mislead anyone," Casey said yesterday. "I didn't prepare the circulars. I had a technical responsibility as a director."

Casey said the issue had been raised at his confirmation hearings and was now being "rehashed." Later, White House deputy press secretary Larry Speakes said Casey had raised the issue with White House counsel Fred Fielding at the time he was appointed by President Reagan to the CIA post.

Casey was asked yesterday whether he thought the Hugel affair is over.

"It was over before it started," he replied.

At the daily White House briefing, Speakes expressed the president's continuing support of Casey.

"The president has full confidence in the director of the Central Intelligence Agency," Speakes said.

He said Reagan had decided to keep Casey in his post. Speakes gave the impression that this was done as a matter of course, without the president's giving any serious consideration to removing him.

Other White House officials gave a similar impression, and said Reagan had not even raised the question of the New York judge's ruling when he met with Casey in the Oval Office Tuesday.

Speakes denied that there had been any cover-up in the Casey matter, because the existence of the case was noted in the disclosure forms all nominees are required to fill out. After Casey did this, the issue was taken up with Fielding.

Casey has important backing within the administration, and not only from the president.

Sen. Paul Laxalt (R-Nev.) said after meeting with the president on another subject that he supports the decision to keep Casey.

"As I read it, this is a matter that involves several parties, including Mr. Casey," Laxalt said. "To what extent he was implicated, I just frankly don't know. I know him well enough that I'm convinced he's doing a good job at the CIA and should be kept there until there's clear evidence to the contrary."

Laxalt was Reagan's national campaign director during the campaign, and Casey was the national campaign chairman. Laxalt said Casey was "a very, very loyal supporter of Reagan" who performed a valuable service in the campaign.

The Senate Intelligence Committee has asked the CIA to report on its hurried, seven-day background investigation of Hugel that failed to raise any warning flags about his complex business dealings. Committee members expressed high regard for Hugel's replacement, John Henry Stein, and noted that one of the CIA's most pressing needs is personnel stability.

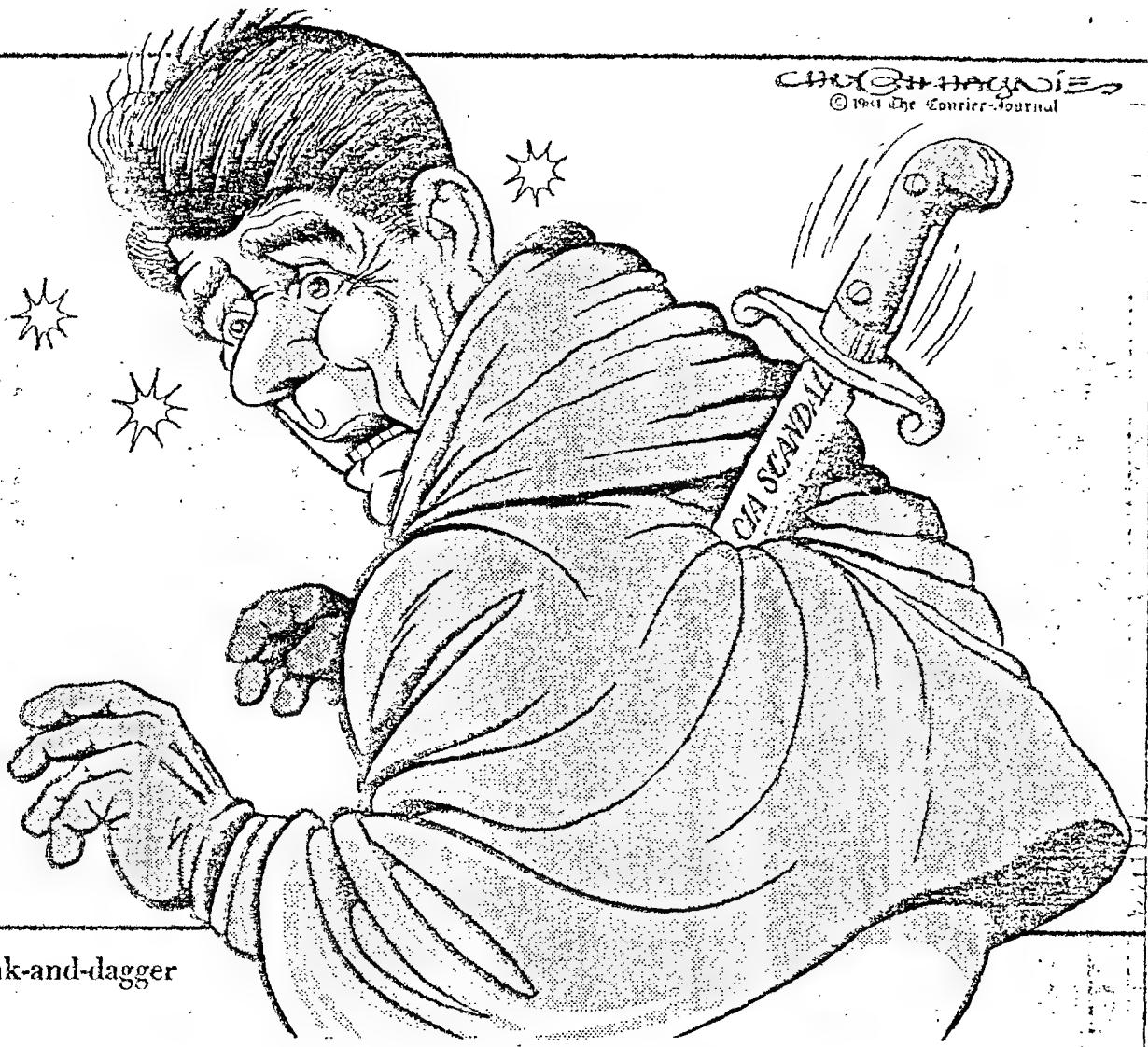
"The agency has gone through a great deal of turmoil over the last six years," said Sen. John H. Chafee (R-R.I.).

Senate sources said that the episode "is not a plus for Casey, but it's not a mortal wound, not by a longshot." Another said there were no "knives out" for Casey on Capitol Hill.

"He's put some things in motion that should lead to improvement," said Sen. Walter D. Huddleston (D-Ky.), second-ranking Democrat on the committee. "Such as having a better penetration in various areas of the world for gathering information.... That should give us a better chance to know what's going on."

Huddleston agreed that the Hugel episode "couldn't help but have a ripple effect on Mr. Casey's situation."

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Office of the Press Secretary

BRIEFING ON CABINET
MEETING BY
LARRY SPEAKES*May -
note
up*The Briefing Room
July 16, 1981

(In Progress)

MR. SPEAKES: Options until the President makes his final decision.

Q Well, I don't want to know what they are, I just want to know what subjects --

MR. SPEAKES: Well, I don't even want to give you that.

Q Larry, are you going to have an announcement of full policy?

MR. SPEAKES: Yes, there will be. The Attorney General was, of course, anxious that there be quick action on this, and I think he set out to have it in the next couple of days. I don't know whether it will be that soon or not. There is probably a sub-group that will assemble to hammer out some fine-tuning on the proposal.

Q Larry, can you give us a general idea -- are they in substantially in agreement? Are these options on details, are they major features of the program, even with -- can you be just a little more specific?

MR. SPEAKES: Well, I would characterize it as substantial agreement on the entire program. The options are merely -- different aspects of the various proposals. I guess, I wouldn't want to mislead you, some are quite different.

Q Was Chaffee part of this?

MR. SPEAKES: Chaffee did come up in the course of it. Of course, it is separate from the overall policy.

Q Did Guantanamo come up in the discussion?

MR. SPEAKES: Guantanamo was mentioned, but --

Q That's for you, Jerry.

Q It was mentioned.

Q Hang in there, Jerry.

Q Was O'Leary mentioned?

MR. SPEAKES: Once again, we're still in a posture of not ruling in or out any sites that you may have heard mentioned, and a decision on that, while urgently needed and anxiously awaited, is not yet --

Q Larry, do you not expect a policy this week, then, on Fort Chaffee?

MR. SPEAKES: Jerry, I would hate to rule out either

one, but just for guidance purposes, I don't anticipate it. I could be fooled on that.

Q Could you hold a ruling up till I leave for Australia on August 1st? (Laughter.)

MR. SPEAKES: On Guantanamo?

Q Is leaving the refugees at Fort Chaffee a possibility that is now being considered?

MR. SPEAKES: No, not really. We're determined to make a move.

Q Will that mean separate announcements to --

MR. SPEAKES: Probably, yes. But they could come together. It's really just difficult for me to give you guidance.

On one other guidance, I do not anticipate the F-16 decision today.

Q Again on guidance, do you expect it tomorrow?

MR. SPEAKES: Possibly, yes. Probably, I guess. But don't hold me to that. If we -- we haven't quite decided how we will do it, but at any rate, if it is done from State, which is my guess it probably will, we will probably have it piped in here, and whatever paper, if there is any, will be put out here.

Q Larry, how many sites are being considered?

MR. SPEAKES: Sides of what?

Q Sites.

MR. SPEAKES: Oh, sites. It is just a long list.

Q Well, you said that was definite about a week ago. Is that about right?

MR. SPEAKES: That's what we said about it at that time, but there are many other sites we've looked at since then.

Q So it's a longer list?

MR. SPEAKES: Well, yes.

Q Well, how has it changed?

MR. SPEAKES: Well, nothing's ruled in and nothing's ruled out. On a background basis, as I did earlier last week, it is less likely.

Q Larry, has the administration given up all together then on getting Castro to take these people back?

MR. SPEAKES: No, we haven't. It is just something that really has not been discussed through diplomatic channels. The wording we get is that they will not --

MORE

Q You say that there are other sites besides the six states that have routed about?

MR. SPEAKES: I don't know how many there are, but there is an endless list of potentials.

Q Larry, who is in the sub-group that you said will still be meeting?

MR. SPEAKES: It wasn't determined. I guess it would be some members of the task force. It could be the Attorney General and White House staff type of a thing.

Q When is that meeting supposed to take place?

MR. SPEAKES: It was not set.

Q If it wouldn't be tomorrow, would it be in the next two days?

MR. SPEAKES: Yes, but notice that I didn't say that. The Attorney General said that he would like to have it in a couple of days.

That is kind of like the F-16's. That hasn't been determined yet. I think, for general guidance purposes, it probably will be the Attorney General.

Q Larry, some aspect of the F-16 thing that needs to be nailed down yet, or is it a question of informing the people, or why is it? --

MR. SPEAKES: Bud McFarland was continuing his consultation. I don't know what time, or even if he finished up there. That was really the final step of the consultation, and then the Secretary of State said at the briefing that he has not finally and formally, the President has not finally and formally made his decision on it.

MORE

- 4 -

Q How long did the Cabinet meeting last?

MR. SPEAKES: It lasted from roughly -- what was it, 1:30 to -- an hour and fifteen minutes.

Q Devoted entirely to the immigration --

MR. SPEAKES: Yes, there were one or two other topics of prospective legislation and things like that.

Q Did it cover the whole gamut of the immigration problem including guest workers, amnesty, sea patrols, the whole shootin' match?

MR. SPEAKES: Some of it had been covered in the earlier Cabinet meetings. They were, as I say, I think on point nine of fifteen today. So they went from nine to fifteen today.

Q Larry, did Director Casey take part in the Cabinet meeting?

MR. SPEAKES: Director Casey is out of town. Bobby Inman did.

Q Where is Casey?

MR. SPEAKES: I don't know where he is.

Q San Fransisco.

Q Larry, on the problem of the F-16's, is there going to be tonight or tomorrow morning some meeting of the mini-National Security Council, Haig, Weinberger, CIA and the President?

MR. SPEAKES: I haven't looked at tomorrow's schedule, but I don't believe there's one tonight.

Q Well, have they all signed off on a decision? You say no presidential decision has been made.

MR. SPEAKES: Well, I think they are continuing discussion back and forth between the White House and the State Department on it. I don't really know how to address that, whether they've signed off on it or not.

Q Are there aspects of the immigration policy, one of the fifteen points or more, that require legislation?

MR. SPEAKES: Yes. Some do require legislation, yes.

MORE

Q Why does the decision making process -- the Attorney General said the President has now received some of the recommendations and has to decide, and I'm not sure how this sub-group works. Is it the idea that the President will pick the options he wants and the sub-group will go along?

MR. SPEAKES: No. What will happen is there were some discussions and fine-tuning of the options and the sub-group will probably refine those and put them on paper and then it will go to the President on those two or three areas that were fine-tuned.

Q Is Schweiker on that sub-group?

MR. SPEAKES: The sub-group was not formally defined. He was on the task force, and it just wasn't stated as to how that was going to work.

Q Larry, have you heard from California yet?

MR. SPEAKES: I haven't checked on that since briefing time. Karna was riding heard on that so if you want to --

MS. SMALL: There is nothing new.

Q It hasn't been received at FEMA?

MS. SMALL: No. Nothing here in the White House, I said. It normally has to go to FEMA, and they have to look at it with the attorney. I have got a call into FEMA right now to check on it.

Q Larry, Smith said what they wanted to do about immigration problems is to spread it around. Does that mean it is unlikely that all the refugees at Fort Chaffee will go to one other place, or will they go to more than one?

MR. SPEAKES: Are you sure he was addressing the Fort Chaffee situation?

Q I thought so.

MR. SPEAKES: Well, you know the options are many, and its just so exploratory right now that they probably could go to more than one place.

Q Is that the way they are leaning right now?

MR. SPEAKES: No, I don't think so.

Q Larry, why are they finding the Chaffee problem more difficult than they had initially thought?

MR. SPEAKES: Well, everything from cost to location to security to politics. Local interest, all those problems enter into it. The cost has been the overriding problem.

Q I gather it is considerably tougher than they thought it would be.

MR. SPEAKES: That's true. The initial problem was that some of these sites could be upgraded fairly quickly, and I don't think they had considered cost at that time. Our cost had been figured, so once cost figures had come in, they were very high.

THE PRESS: Thank you.

Reagan Avows 'Complete Trust' In His Embattled CIA Director

By Jeremiah O'Leary
Washington Star Staff Writer

President Reagan said last night he has "complete trust" in CIA Director William J. Casey, who has been battered this week by the resignation under fire of his chief spymaster and disclosure of a judge's adverse ruling in a lawsuit over his past financial activities.

The president, attending a reception for "labor" leaders at Tayloe House on Lafayette Square last night, paused for a moment when reporters shouted, "What about the Casey controversy?"

"There is no controversy," Reagan said. "I have complete trust in him."

Earlier yesterday the White House played down disclosure of the ruling in the lawsuit accusing Casey and other directors of a farming company of misleading investors.

Deputy White House press secretary Larry Speakes said the president indicated he was not disturbed by the ruling, which is being appealed, and noted that the facts of the case had long been known to other White House officials.

"This information was provided to the president's counsel on the disclosure forms we all filled out when we came aboard the administration," Speakes said. "The pending litigation was listed by Casey. There was a discussion with the White House counsel, Fred Fielding. These forms were furnished to the Senate Select Committee on Intelligence when Casey went through the confirmation process.

Fielding recollects that the same information was discussed in 1973 when Casey was confirmed to be undersecretary of state and in 1975 when he was named to the Export-Import Bank.

Asked if the president will continue to back Casey if the ruling on the appeal goes against him, Speakes said, "We'll just have to wait and see."

Speakes insisted that the White House has high ethical standards for administration officials but that there are no written guidelines. He said the charges against Casey and his former deputy director for operations at the CIA, Max Hugel, was the first time ethical standards have come up. He said some charges are more serious than others and decisions will be made on a case-by-case basis.

Fielding's job in the transition was to review the conflict-of-interest forms and he reviewed the documents in the Casey lawsuit.

"He found no problem with it," Speakes said. "In his opinion, the nomination should have gone forward, and it did."

The court material, he said, was available to the FBI for its background check and to the Senate Intelligence Committee.

A ruling handed down May 19 by Judge Charles E. Stewart Jr. in New York held that Casey and other directors "omitted and misrepresented facts" to investors in a firm called Multiponics Inc.

White House states faith in CIA's Casey; recent ruling 'not relevant'

Washington (AP)—President Reagan has full confidence in William J. Casey and wants him to stay on as director of the Central Intelligence Agency, despite a ruling he knowingly misled investors in a 1980s business deal, White House officials said yesterday.

The federal judge's ruling May 19 against Mr. Casey surfaced Tuesday within hours of Max Hugel's resignation as chief of clandestine operations.

Mr. Hugel, a Casey confidante, denied allegations published in the *Washington Post* that he improperly slipped inside information on a firm he once headed to two Wall Street brokers. He said he was stepping aside to avoid having the allegations harm the administration and his colleagues at the CIA.

While Mr. Reagan was publicly backing Mr. Casey, CBS reported that Senator Barry Goldwater (R, Ariz.) was telling his colleagues on the Senate Intelligence Committee that Mr. Casey should be replaced. Mr. Goldwater is chairman of the committee.

Mr. Goldwater, who was not directly quoted, has been unhappy with the way Mr. Casey has been running the agency and was particularly perturbed by the appointment of Mr. Hugel, CBS reported.

But Cable News Network said Mr. Goldwater called the CBS story "a malicious lie." CNN quoted Katherine Grammer, an aide to Mr. Goldwater, as saying that Mr. Goldwater had spoken to Mr. Casey yesterday and told Mr. Casey the Senate panel would look into the charges. Ms. Grammer also told CNN that the senator told Mr. Casey, "I think everything's going to be all right."

The court ruling against Mr. Casey came in connection with an unrelated business deal in which a group of unhappy stockholders charged in a civil suit that Mr. Casey and other directors of a now-defunct firm misled them in attempts to solicit investors.

U.S. District Judge Charles E. Stewart, Jr., in New York said Mr. Casey and the other directors allowed distribution of a circular they knew contained false or mis-

stated information and which also omitted important information.

Mr. Reagan, stopped by reporters as he went into a reception for labor leaders, said, "There is no controversy [over Casey]. I have complete trust in him."

Vice President George Bush, attending the same reception, was asked if Mr. Casey should resign. "Oh, no!" he replied.

Edwin Meese III, the president's counselor, played down the importance of the ruling, calling it a 10-year-old case "that's not going to go anywhere as far as we're concerned. I don't think it's relevant to his position in the administration."

In a telephone interview, Mr. Casey's New York lawyer, Milton Gold, said yesterday, "We have very substantial defenses to this action. Mr. Casey says he relied on the advice of a reputable investment firm, Glore, Forgan, and a reputable accounting firm, Haskins & Sells. He denies any misconduct."

Mr. Gold said he had moved to have Judge Stewart reconsider his finding, and in any case, trial of the case has not begun

and "we haven't had our day in court yet."

Mr. Gold said Mr. Casey himself lost \$150,000 on the firm. "This is exactly the kind of case that arises often when investors lose their money and sue the directors. They lost their money and he did too," Mr. Gold said. "There isn't a vestige of personal dishonesty or lack of elemental good faith on the part of [Mr.] Casey."

In a related matter, a federal appeals court in New Orleans has ruled that Mr. Casey and other directors, through their management, put the firm Multiponics, Inc., "deep and deeper into debt" through a "pattern of self-interest."

Based on that conclusion, the 5th U.S. Circuit Court of Appeals upheld last July a ruling which put Mr. Casey and the other directors last in line for a share of the firm's final assets, when they were divided two weeks ago among the firm's other creditors.

Mr. Casey and the other directors got none of the \$10 million, despite their claims of outstanding personal loans to the company.

At the White House, the deputy press secretary, Larry Speakes, said the president did not learn of the district court ruling in New York May 19 until he saw news accounts of it Tuesday.

Mr. Speakes said he did not know whether the CIA chief informed anyone in the White House of the May 19 finding. However, he said Mr. Casey had revealed the existence of the pending suit and discussed it with Fred Fielding, now the White House counsel, before his nomination was submitted.

"The pending litigation was definitely discussed," Mr. Speakes said. "He [Fielding] decided that there was no problem."

Mr. Speakes said the president was briefed on Mr. Casey's file before submitting the nomination. The spokesman said, however, he did not know specifically whether the pending suit was discussed.

"The president retains full confidence in the director of the CIA," Mr. Speakes said. "The matter is still subject to further appeal in the court system."

Mr. Reagan does not want Mr. Casey to step aside during a possible appeal, said Mr. Speakes, adding that it was "not an up or down decision."

"The president immediately decided to retain Mr. Casey," said Mr. Speakes.

Mr. Speakes, pressed by reporters on how long Mr. Reagan would back Mr. Casey, said, "Well, we'll just wait and see what happens."

A new black eye for CIA

It's time to consider change in management

High officials of the Central Intelligence Agency have been guilty of so many bad judgments over the years that the latest one to hit the headlines may take up only a paragraph in a definitive history of the agency.

It's nonetheless disturbing that one of the most sensitive posts in the CIA was occupied for the past couple of months by an appointee whose questionable business dealings in the past were not discovered by the agency.

What makes the situation even more unsettling is that Max Hugel, the man named by Director William Casey to take charge of covert operations and other spy activities, had no discernible qualifications for the job. It was said one observer, like making a person who had never been to sea the Chief of Naval Operations.

The Hugel bombshell was not the only one to burst over CIA headquarters this week, however. The day after a newspaper revealed charges that Mr. Hugel had once been involved in illegal stock manipulations, the story came to light that Director Casey himself had been judged responsible for misleading investors in a farming company.

This sort of publicity is exactly what the agency, which is still recovering from the scandals of the 1970s, doesn't need.

The allegations against Mr. Hugel were made by former business associates and have not been proved. But an organization whose bread and butter is careful investigation and analysis should not have to read in *The Washington Post* that its top spy is suspected of financial funny business. If it turns out that the revelation was arranged by Mr. Hugel's jealous subordinates, the agency will appear undisciplined as well as inept.

The other question that congressional oversight committees should pursue is why Mr. Hugel was chosen in the first place. He was a successful businessman, a friend of William Loeb, the reactionary New Hampshire publisher, and a member of the Reagan campaign organization. But he had no background in intelligence work.

Mr. Casey's theory was that an outsider might have a healthy influence on an outfit that sometimes resembles an Eastern college club. He surely could have found an outsider, however, who knew something about the job.

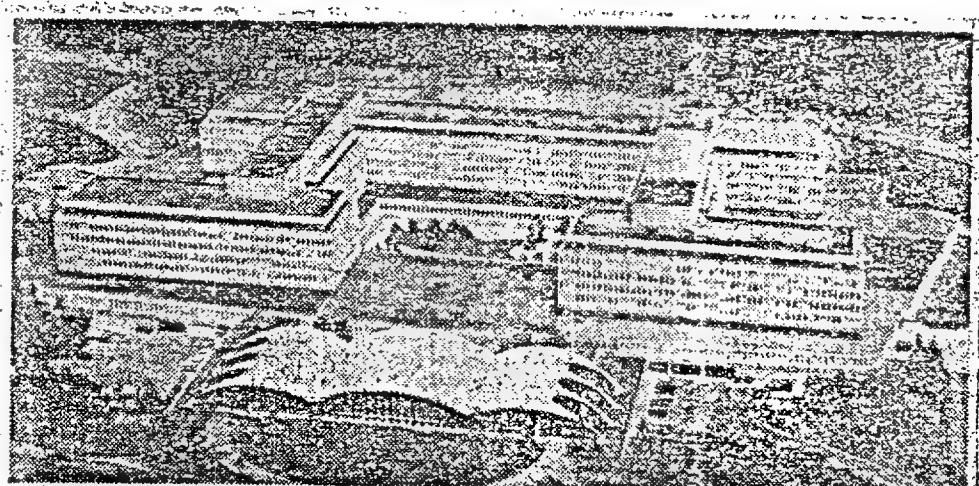
As for Mr. Casey, a federal judge's decision in a civil suit raises questions as to whether he is the figure of unquestioned rectitude needed to restore the morale and image of the CIA. According to the ruling, Mr. Casey and other directors of a company knowingly gave false and misleading information to investors.

Mr. Casey does have broad experience in business and government, and served in the Office of Strategic Services in World War II. During the Nixon administration, he headed the Securities and Exchange Commission.

But he has also been involved in legal and political controversies stemming from both his business activities and his government service during the Nixon years. They do not appear to have been well covered during his Senate confirmation hearing.

These types of problems, especially when combined with the ugly stories about former agents engaged in the illegal weapons trade, can only blacken the CIA's other eye. Before things get any worse, the President and Congress need to think about a change in management.

Times Editorial



The Hugel bombshell was not the only one to burst over CIA headquarters this week.

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ON PAGE 1

BOSTON GLOBE
16 JULY 1981

Reagan backs CIA director

By Curtis Wilkie
Globe Staff

WASHINGTON - Even as President Ronald Reagan was professing "full confidence" in CIA Director William J. Casey yesterday, he was confronted with the first full-blown embarrassment of his Administration.

Hours after Casey's hand-picked chief of clandestine operations at the CIA, Max Hugel, resigned Tuesday after allegations arose that he was involved in fraudulent stock market activities in 1974, the White House was hit by the news that a federal judge had ruled that Casey misled investors in another stock offering in 1968.

In both cases, the White House learned of the charges as a result of newspaper inquiries. Both Casey and Hugel cleared government security investigations earlier this year.

Although the decision against Casey in a civil lawsuit was delivered by US District Judge Charles E. Stewart in Manhattan on May 19, the White House did not learn about it until the news broke Tuesday afternoon in the New York Daily News, following Hugel's resignation.

Deputy White House press secretary Larry Speakes said yesterday that Casey "presumably" knew about the decision in his case, but had not told anyone on the White House staff about it for nearly two months.

The judge found that Casey and other officers of a now-defunct firm had "omitted and misrepresented facts" in an offering for shares in an agricultural company.

Speakes said that Casey had told Fred Fielding - now White House counsel - of the case earlier this year, when Fielding was investigating potential conflict-of-interest cases involving Reagan's key appointments. However, the President did not hear of the case or the decision against Casey until Tuesday afternoon.

Reagan's response, Speakes said, was: "I have no problem with that." The President instructed his spokesman to say that he "retains full confidence" in Casey.

However, the case created a new problem for Reagan only a few hours after the President's aides were expressing pleasure that the Hugel matter had been "handled quickly."

Hugel offered his resignation Tuesday morning, shortly after the Washington Post

published allegations that he had improperly provided inside information to stockbrokers in 1974 in order to stimulate sales of stock in an electronics firm he owned at the time.

In contrast to Hugel's fast departure, the Carter Administration hemorrhaged throughout its first summer four years ago over charges that its budget director, Bert Lance, had illegally manipulated his Georgia banks before Lance resigned.

Reagan's top aides were reportedly eager to obtain Hugel's resignation, but Speakes indicated that he quit before he had to be asked to do so.

The White House first learned of Hugel's troubles a week ago, when Fielding was told by a "third person," according to David Gergen, a Reagan assistant. The message was apparently triggered by a Washington Post investigation into Hugel's background.

After the word was passed to James A. Baker, the White House chief of staff, a meeting was set up with Casey and key members of the Reagan team. Most of Reagan's advisers had already expressed misgivings at Casey's appointment of Hugel, an intelligence neophyte, to a high CIA position.

Reagan, who was shielded by his staff from the impending bad news, was finally told of the allegations against Hugel at the "close of business" Monday, Gergen said.

At the time, Reagan expressed "faith and trust in Casey's ability" at the CIA and said he was doing "a first-rate job," Gergen said.

Casey, a former head of the Securities and Exchange Commission, was chairman of the Reagan campaign last year.

After learning of Casey's own court problems Tuesday afternoon, Reagan "elected not to ask Casey to step aside," Speakes said.

The White House spokesman said that Reagan was satisfied that the CIA had not been damaged by the revelations. "I think we have high ethical standards in this Administration," Speakes said.

However, members of the Reagan Administration have been dogged with conflict-of-interest charges before the latest controversy at the CIA.

• Shortly before the election last fall, Richard V. Allen - no Reagan's national security advisor - resigned from the campaign after the Wall Street Journal reported that he had used his connection to Richard Nixon's White House to pass on import-export information to Japanese business associates.

• Ernest W. Lefever, Reagan's nominee to become assistant secretary of state for human rights, was rejected by the Senate Foreign Relations Committee last month and quit his quest for the job. In his confirmation hearings, it was disclosed that Nestle Corp. contributed to a research institute Lefever once headed. The institute defended Nestle's policy of marketing infant formula in developing countries.

• Interior Secretary James G. Watt was assailed in his confirmation hearings because the Mountain States Legal Foundation he once headed was supported by mining, oil and timber interests.

The foundation had sued the Interior Department to gain access to public lands barred from them by the government. Watt agreed not to participate in any litigation between his former foundation and the Interior Department.

• Treasury Secretary Donald T. Regan faced questions during his confirmation hearings over a commodities scheme called the "butterfly straddle" - a method of speculating designed to avoid taxes - which Merrill Lynch & Co. recommended to some of its customers in the 1970s, while Regan was chairman of the investment firm. Regan said he never used the method himself, and denied that he had ever recommended it to any customer of the company.

The CIA must not be politicized

What the Reagan administration and the Central Intelligence Agency didn't need was a scandal.

As the first Republican president to be elected since the tribulations of Watergate forced the resignation of Richard Nixon, Ronald Reagan must be particularly sensitive to allegations that reflect negatively on his administration. The CIA, its reputation damaged by Senate investigations that disclosed cloak-and-dagger improprieties abroad and at home, desperately needs new successes to re-establish its reputation and credibility as an intelligence-gathering agency.

The allegations made against Max Hugel, deputy director of the CIA's clandestine service, are a major embarrassment to the president and to William J. Casey, the agency's director. Hugel has resigned his post, one of the most sensitive jobs in the government, after being accused of improper or illegal stock market practices.

Hugel has denied the allegations, made by two former Wall Street brokers, Thomas R. McNell and his brother Samuel, that he participated with them in a series of prohibited practices that deceived other investors. The McNells have backed up their charges with tape recordings and documents reportedly showing that Hugel provided them with "insider" information on his company, Brother International Corp., in advance of disclosure to other investors and the general public. Hugel also is ac-

cused of improperly funneling funds to the McNells' security firm, the principal trader of Brother International stock, through loans to Samuel McNell.

While all of this is alleged to have happened before Hugel joined the CIA, the disclosures made his continued service with the agency impossible. CIA employees are supposed to be above reproach. Marital difficulties and financial irresponsibility are grounds for rejection. The agency also screens out job applicants who may indulge in marijuana-smoking or homosexuality.

Casey's judgment must be questioned. His placing Hugel in what is considered to be one of the most sensitive posts in the government was wrong from the outset. Hugel was not especially qualified for an intelligence assignment, particularly one in which he directed the agency's worldwide network of covert intelligence agents.

Casey reportedly did not consult with the White House when he hired Hugel as a deputy director. Hugel and Casey were on the Reagan campaign staff and have been friends for a number of years. Casey's motives in naming a friend to such a highly sensitive job are understandable. He wanted someone he trusted. But the covert operations post traditionally has been held by an intelligence professional and is not appropriate for a political appointee.

The CIA's security investigation of Hugel did not turn up anything negative, even though

Thomas McNell claims he tried to contact the personnel director of Reagan's transition team to warn him about Hugel's background. McNell's calls were unanswered and the CIA, which had a reputation for thorough personnel checks, completed its probe of Hugel's background in just seven days without uncovering anything adverse. Significantly, the CIA security investigators did not conduct a required interview with Hugel concerning adverse information and inconsistencies.

Let us hope the inept handling of Hugel's security investigation and Casey's poor judgment are not examples of the kind of performance we can now expect from the CIA. These are times in which our government needs accurate and perceptive intelligence reports analyzing world developments. The CIA is one agency that must not be politicized.

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ON PAGE A-11

WASHINGTON POST
16 July 1981

Several Senators Weigh Casey Probe

By James Coates
Chicago Tribune

Members of the Senate Judiciary Committee are considering whether to investigate the past business dealings of CIA Director William J. Casey, including possible involvement with fugitive financier Robert Vesco.

A spokesman for Sen. Dennis DeConcini (D-Ariz.) confirmed that the senator yesterday afternoon began exploring whether Republicans, who control the Senate, will authorize funds to conduct an investigation.

It was learned that DeConcini began negotiating with colleagues after noting that one company that joined Casey in a farm product scheme between 1968 and 1971 was controlled by Investors Overseas Services, the mutual fund Vesco is charged with looting for more than \$200 million.

IOS reportedly owned nearly 10 percent of the company, Multiponics, through an IOS subsidiary, IIT, a Geneva-based mutual fund.

It was disclosed Tuesday that a federal judge in New York ruled in May that Casey had misled Multiponics investors by not telling them that large amounts of the company's assets were being used to guarantee his own mortgage.

Casey has been confirmed by the Senate for four top-level jobs, and during his hearings has been asked about his role in urging the Securities and Exchange Commission's chief investigator, Stanley Sporkin, to postpone a Vesco probe.

During a trial of former U.S. attorney general John N. Mitchell in 1974, Casey, as a prosecution witness, said that while serving as SEC chairman he asked Sporkin to postpone taking depositions in the Vesco case until after the 1972 election. Casey then admitted that he made that request on the same day Vesco donated \$200,000 in cash to President Nixon's re-election committee.

Sporkin has testified since that nothing improper occurred, because he refused Casey's request. Sporkin left the SEC this year to serve as chief counsel at the CIA.

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ON PAGE A-20

President Voices 'Confidence' In Casey Despite Accusations

Special to The New York Times

WASHINGTON, July 13 — President Reagan today expressed "continuing confidence" in William J. Casey, the Director of Central Intelligence, despite two separate accusations of stock fraud that resulted in a court ruling against Mr. Casey and the resignation of his top deputy.

A senior White House official said Mr. Reagan talked with Mr. Casey, his former campaign director, this morning. The President's expression of support came after he listened to Mr. Casey's account of the court case and the circumstances that led yesterday to the resignation of Max C. Hugel, another Reagan campaign official who served as the Deputy Director of Operations in the intelligence agency.

Mr. Reagan also later expressed amazement to another aide that the press was interested in the "old news" that Mr. Casey was being sued in New York on charges of having misled investors in an agricultural firm, Multiponics Inc.

Say President Was Not Briefed

But Mr. Reagan's advisers insisted that until the present controversies arose, Mr. Reagan had not been briefed about the charges against Mr. Casey. The 68-year-old Director of Central Intelligence had noted that he was a defendant in a stock suit in the disclosure forms he filled out before his appointment and the matter was reviewed by Fred Fielding, the White House counsel, according to Larry Speakes, the deputy White House press secretary.

However, "it would not have been routine for Fielding to have brought this to the President's attention and he did not," another adviser said. Since the suit is a civil matter, he said, "it would not have been a bar to appointment."

The Reagan adviser, who asked not to be identified by name, also said that no one faulted Mr. Casey for not informing the White House that the Federal District Court in Manhattan ruled against him and his co-defendants almost two months ago, on May 19.

Judge Charles E. Stewart Jr. held that Mr. Casey, as secretary and a main investor in Multiponics, participated in an investment offering that "omitted and misrepresented facts" to investors. Mr. Casey's lawyers have asked for a rearrangement of that portion of the case. Mr. Speakes noted today that the question of the suit came up in 1973, when Mr. Casey was confirmed as Under Secretary of State for Economic Affairs and again when he was confirmed in his present job. "They are part of what we knew when Mr. Casey was appointed C.I.A. director," Mr. Speakes said of the legal matters.

Reagan Asks Why It Is News

"Why are they bringing that up now?" Mr. Reagan was quoted as asking this morning when informed of the questions about Mr. Casey. "That's old news."

As they expressed confidence in Mr. Casey, however, White House officials made no attempt to hide their relief over Mr. Hugel's speedy resignation from a job that many Administration officials thought him ill-suited for.

"We've never made any bones about that," one official said today.

Mr. Hugel resigned after publication of accusations by former business associates that he participated in fraudulent securities transactions in the 1970's. White House spokesmen insisted the resignation was voluntary, but it came quickly after Mr. Casey was told yesterday that the matter needed to be settled before Mr. Reagan's visit to Capitol Hill for a lunch with Congressional leaders.

Mr. Hugel, a former electronics company executive, had no experience to qualify him for a job normally held by professionals in covert operations. But Reagan aides tolerated the appointment

because he was a friend of Mr. Casey's. "He's intolerable any place in the Government," a senior official said of Mr. Casey's hiring of Mr. Hugel without White House approval. "It was a silly thing to do."

However, even officials who welcomed the Hugel resignation were united today in saying neither that appointment nor the court ruling had hurt Mr. Casey's standing at the White House.

Dishonorable schoolboys

CIA Director William J. Casey should follow the example of his protege, Max Hugel, who resigned under a cloud of controversy this week as overseer of the agency's spy network.

That's sound, conservative, patriotic advice, meant to help strengthen the CIA and promote a favorable image of it.

Mr. Casey's unforgivable failing is that he has shown grossly bad judgment. He dumbfounded colleagues last May with his decision to appoint Mr. Hugel, an old chum, chief of the CIA's clandestine service, one of the most crucial and sensitive jobs in government. After heated protests by CIA and top White House officials over the appointment, Mr. Casey continued to defend his choice, even writing a letter of explanation to President Reagan.

In the case against Mr. Casey it is of only secondary importance that allegations surfaced this week (and were published in this newspaper) to the effect that Mr. Hugel and his business partners profited from some inside information he leaked about a company he owned. (It is also only a side issue that Mr. Casey faces a somewhat similar charge, a federal judge recently ruled that Mr. Casey and some business colleagues knowingly misled investors in a \$3.5 million fund-raising effort for a now-defunct New Orleans company.)

What's truly important is that Mr. Casey, the head of one of the most important and sensitive agencies in government, brought in someone patently lacking in qualifications for one of the most important and sensitive posts in that agency. It's a post that's responsible for intelligence-gathering around the globe and for the agency's most controversial activities: covert operations.

Consider the fact that Mr. Hugel's only intelligence background was some post-war work with the Army in Japan. A streetwise native of Brooklyn and reputed self-made millionaire, Hugel reportedly acquired a fortune in business dealings rather briskly. When hit with the charges about insider business dealings, he denied them but resigned anyway.

Mr. Casey would do well to do the same. He'd save both the agency and the administration considerable embarrassment. He has already embarrassed the administration; to hang on would only prolong the damage.

After years of eroding public confidence in the CIA and the resulting loss of effectiveness, the agency has finally begun regaining stature and strength. The Casey-Hugel episode is clearly a setback, but Mr. Casey's quick resignation — or firing — should reassure the nation that the CIA is indeed back on the right course. ■

16 July 1981

Spying and politics

Filling top CIA posts is a hazardous occupation for the Reagan administration.

That point was brought home this week with the disclosure that Deputy Director Max Hugel has been implicated in illegal stock market practices in the mid-1970s. Though claiming innocence, Hugel quickly resigned his post in which he presided over all covert operations.

CIA Director William Casey, meanwhile, is involved in a separate lawsuit in which the judge has already ruled that Casey and his business partners misrepresented facts to investors in 1968.

These developments are highly embarrassing to the agency and to the Reagan administration. The CIA

has enough real problems internally without having these burdens imposed from the outside. Even if Hugel is correct in asserting that he has been "blackmailed" by disgruntled former business partners, a top CIA administrator cannot afford even the appearance of being so compromised.

But it isn't just a question of being compromised. Even before these allegations surfaced, the appointments of Casey and especially Hugel to these key posts had raised eyebrows in Washington.

Consider their backgrounds. Before going to the CIA, Casey headed Reagan's presidential campaign and Hugel was his trusted lieutenant. Both were wealthy businessmen. Though Casey

had worked for the Office of Strategic Services during the war and Hugel had done some intelligence work for the army in post-war Japan, neither man had extensive knowledge of government intelligence operations. Why were they appointed? Not only because Reagan presumably thought they could do the job, but also because they were trusted political allies of the President's.

Must the CIA become a prize in the political payoff stakes? Does the agency which oversees our worldwide intelligence network not belong in the hands of experienced professionals who are removed from pressures of politics?

Reagan of course is not the first president to intrude politics into a top CIA appointment. President Carter, to name one, had attempted to placate the Kennedy wing of his party by nominating Theodore Sorensen for the CIA directorship. The Senate didn't buy it, correctly noting that Sorensen, a gifted speech writer for John F. Kennedy, knew nothing about the spy business.

In fairness, it must be mentioned that CIA directors who have risen through the agency's ranks do not necessarily spell success. Richard Helms, a career man, pleaded no contest to federal charges of lying to a Senate committee. But Helms was probably right in his assertion that the CIA abuses over which he presided were fully condoned, and sometimes ordered, by the president himself.

The Helms example, in any case, offers no brief for making the CIA a pawn in the political payoff game. The security of the United States deserves, indeed demands, better. President Reagan has already moved quickly to replace Hugel with a career CIA officer. But he must give broader assurances that spies and politics won't be mixed.



CASEY



NEW YORK DAILY NEWS
16 July 1981

White House backs embattled CIA chief

Washington (News Bureau)—The CIA found itself embroiled in unwanted controversy again yesterday, with its director, William J. Casey, facing a federal judge's ruling that he knowingly misled investors in a business venture 12 years ago.

The intelligence agency, which has a rocky history, was supposed to stage a major comeback under the encouraging hand of the Reagan administration.

Both Casey, 68, and the CIA declined to comment on the judge's ruling, which involved a civil—not a criminal—matter. Senior White House aides insisted that Casey was not in any trouble with President Reagan.

Deputy White House Press Secretary Larry Speakes said yesterday that Reagan had told his top aides, "I retain full confidence" in Casey.

Speakes told reporters that "these matters came up in the past, as far back as 1973. They've been the subject of at least one and possibly two Senate hearings. They were part of what we knew when Mr. Casey was appointed to the directorship of the CIA."

SPEAKES SAID HE was "reasonably sure" Casey referred to the case on forms filled out before he was nominated to the job.

"This is a matter still in the courts

and subject to appeal so I shouldn't comment on the merits of the case," he said.

"Director Casey has done an excellent job with the CIA," Speakes said.

Casey's attorney, Arnold Jacobs, said it would be inappropriate for Casey to comment at this time. Jacobs said the judge has been asked to reconsider the ruling.

Casey's problems surfaced just as his handpicked CIA spymaster, Max Hugel, 58, a New Hampshire businessman-politician, resigned as deputy director of operations in charge of clandestine activities because of allegations of stock manipulation.

Casey, a top aide in Reagan's successful presidential campaign, headed the Securities and Exchange Commission during the Nixon administration. He was accused by Federal District Judge Charles E. Stewart Jr. in New York of misleading stockholders.

Judge Stewart's 19-page ruling, which was made public Tuesday, came in a 1974 class-action suit filed by investors in a New Orleans firm called Multiponics Inc., of which Casey was an officer and director.

IN AN EFFORT to raise capital for the firm, Casey and the other defendants issued a stock-offering circular in October 1968 which said the company's assets at the time included seven operating farm units and two tracts of uncleared land, Stewart said.

But in September 1969 and July 1970 statements filed with the SEC, the firm stated that "of the seven so-called operating farming units, two were not operating at all at the time they were acquired by the company, two were not operating other than sharecropping and one was operating at a loss," Stewart wrote.

Stewart still must rule on whether the investors relied on the offering circular to buy Multiponics' securities and therefore are entitled to damages.

Reagan backs CIA head in scandal

PRESIDENT Reagan voiced "full confidence" in his embattled Central Intelligence Agency director, Mr William Casey, yesterday amid a deepening scandal surrounding the organisation.

The CIA chief, who promised on taking office to restore "honour and respect" to the American intelligence services, is himself accused of dubious business practices in private life.

The charge concerning Mr Casey, 68, is that he knowingly misled investors in a now-defunct farming company 15 years ago. It is less serious than the fraud allegations that led to Tuesday's fall of Mr Max Hugel, the CIA Deputy Director in charge of all clandestine activities.

But, combined with doubts as to the judgment shown by the CIA chief in appointing Mr Hugel in the first place and reports that Mr Hugel's screening on joining the agency had been perfunctory, the accusation has done nothing to improve Mr Casey's reputation.

'Full confidence'

Hence the White House effort to bolster the CIA director's image. Mr Larry Speakes, the President's spokesman, quoted Mr Reagan as telling senior officials: "I retain full confidence in the CIA director."

Mr Casey was alleged by a New York judge in a little-noticed ruling of May 19 to have joined seven other officers of a New Orleans farming company named Multiponics Inc. in "omitting and misrepresenting facts" in an investment offering.

The director's lawyers are appealing against the decision, which was described by one Washington legal expert as arising from the kind of lawsuit brought by disgruntled investors that "any businessman-lawyer might run into in the course of his career."

The White House said the matters involved in the New York ruling had been examined during the Senate hearings early this year on Mr Casey's nomination as CIA chief.

But behind official protestations of faith in Mr Casey there is no mistaking the concern felt privately by White House officials and not-so-privately on Capitol Hill.

Caused concern

Senator Daniel Moynihan, Democrat, New York, a member of the Senate Intelligence Committee, said: "The appointment of Mr Hugel caused apprehension in the Senate as it did in McLean"—the Washington suburb which is the home of the CIA headquarters.

"His resignation causes dismay. The agency must ask itself how it failed to learn what the *WASHINGTON POST* learned. The Administration must ask itself how it allowed this disaster to come about in the first instance."

The newspaper followed up its disclosures that lead to Mr Hugel's resignation that the security investigation at the time of his appointment had been cursory.

It claimed its investigation of Hugel appeared to have been a hurry-up, seven-day job that failed to sound even a mild alarm about his complex business career.

Chosen by Casey

Mr Hugel was not a Presidential appointee. He was chosen by Mr Casey as an old and trusted friend of 20 years with proven managerial expertise.

He started work at the CIA on Jan 21 as a special assistant to Mr Casey. On March 6 he was promoted to Deputy Director for Administration before his appointment to the highly sensitive job of Deputy Director for Operations but was a complete neophyte to intelligence work.

The Post said that security clearance had been given to Mr Hugel after inquiries which produced "not a hint of Hugel's volatile relationship" with his former business associates Thomas and Samuel McNeil.

The Mc Neil brothers went to the newspaper with allegations that Hugel had joined them in improper and perhaps illegal Stock Market practices to improve his own firm's shares.

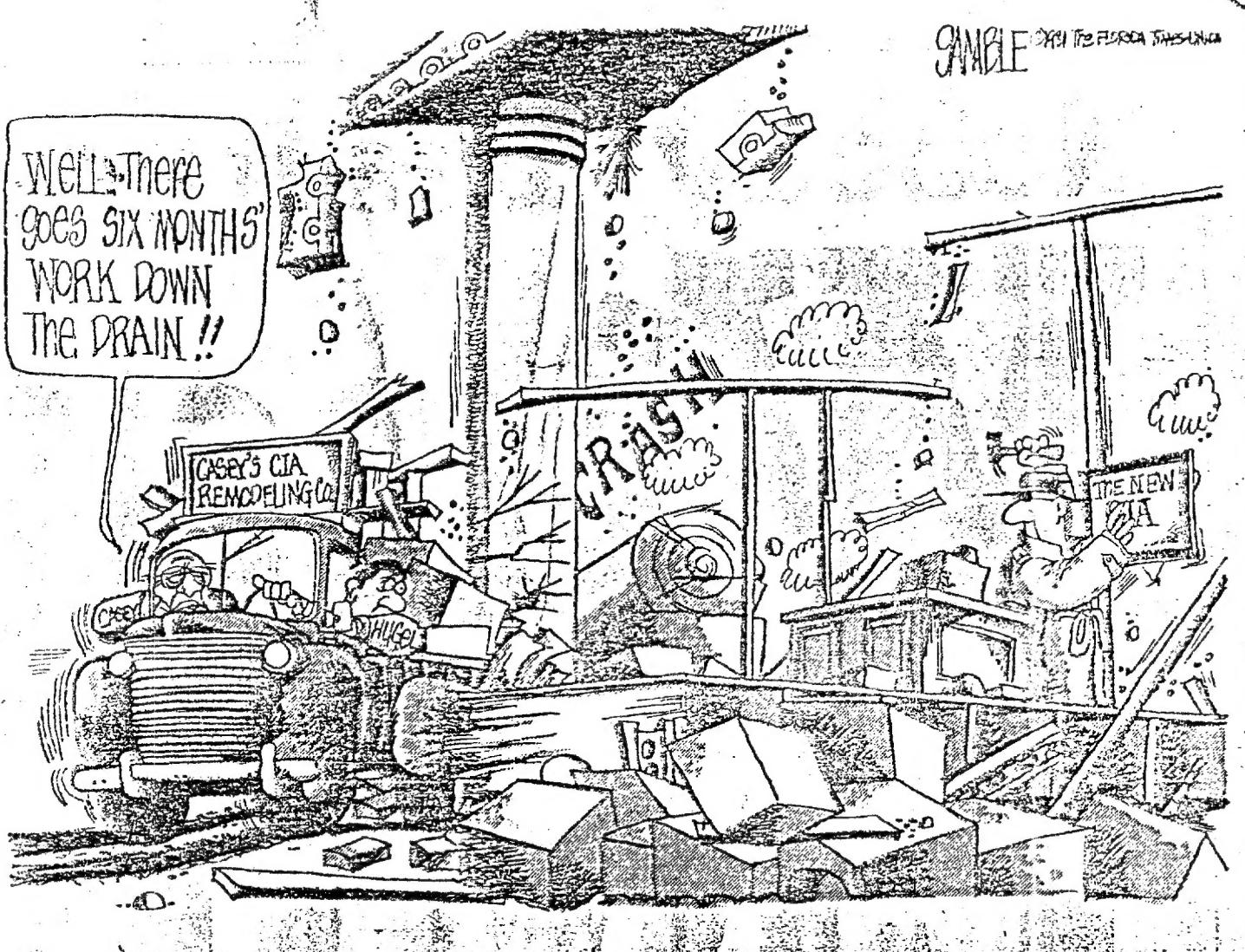
They did so, they said, after telephoning the White House regarding Mr Reagan appointments.

Mr Hugel was asked why he had not told the CIA security inspectors of the business dispute and replied, according to the Post, "I did not think it was a reportable event."

JACKSONVILLE FLORIDA TIMES-UNION
16 July 1981

GAMBLE (CARTOON BY FLORIDA TIMES-UNION)

WELL, THERE
GOES SIX MONTHS'
WORK DOWN
THE DRAIN!!



ARTICLE APPEARED
ON PAGE A-3

Approved For Release 2005/11/28 : CIA-RDP91-00901R000400180007-1

WASHINGTON STAR
16 July 1981

JACK W. GERMOND & JULES WITCOVER

The President Seems Slightly Out of Touch



The most revealing aspect of the Max Hugel affair may have been the role of Ronald Reagan, which was essentially passive.

The president, it turns out, was never told about the "problem" until the night before it was "solved" by Hugel's resignation. That was the case despite the fact that the White House chief of staff, James Baker, and counsel, Fred Fielding, had been aware of the situation for at least four days and had held several discussions about it with Hugel and CIA officials.

It is true, as the White House took pains to point out, that Hugel was an appointee of CIA Director William Casey and not of the president himself. But it is equally true that he held one of the most sensitive posts in government as director of the CIA's clandestine operations. You might think Reagan would like to have known if there was trouble brewing there.

The attitude of those on the staff seems to have been that there was no need to bother the president with such a detail. And, technically, that is probably correct.

But, in one sense, this was not an isolated incident. Instead, it was another case in which the White House projected an image of a president so far removed from the nitty-gritty that you naturally wonder what Reagan does all day.

The Ernest Lefever case is another example. Throughout the weeks that controversy boiled in the Senate and the press, Ronald Reagan never met him. Apparently he was simply not curious enough to personally meet with the man he had nominated to be assistant secretary of state for human rights.

The White House answer to criticism of such incidents makes some obvious sense. We have just spent four years with a president who paid entirely too much attention to detail, so much that he conveyed the impression he couldn't see the forest.

That reputation was one of the factors in Jimmy Carter's political demise.

It now seems reasonable to wonder, however, whether the new administration has not overcompensated for this failure in the president's predecessor by isolating him from decisions that he should properly make.

The political risk in this kind of policy lies in the possibility it will feed suspicions that Ronald Reagan is not only functioning as a chairman of the board but one who doesn't attend many of the meetings. The picture we are getting is one of the president spending an inordinate amount of time riding horseback or chopping firewood or whatever.

That image has been reinforced, moreover, by Reagan's continuing problems at his press conferences. In the first of those, when he had been in office only a few weeks, he could get away with vague answers to specific questions. Nobody expects a new president to be an instant expert on every issue; on the contrary, it is refreshing to find one who admits to human fallibility.

But that period of tolerance may be running out. The president was subjected to considerable criticism for his performance in his first press conference after his recovery from the assassination attempt, particularly on such things as his misstatement on the nature of the missiles Syria has placed in Lebanon.

Reagan is not the first president, of course, who seemed to function above the rabble. As his advisers are quick to remind everyone, Dwight D. Eisenhower ceded a great deal of authority to Sherman Adams and spent a lot of time himself playing golf. And that turned out all right.

That is true enough, but there are significant differences between the situations of the two presidents. For one thing, the issues with which Reagan is dealing seem far more pressing than did those confronting the nation 25 years ago. For another, Eisenhower had a long history of involvement in national security matters that was far more reassuring than Reagan's limited experience.

No one would suggest that Reagan isn't functioning as president or that he has delegated so much authority that he has become a figurehead. On the contrary, all of those who have worked for him and known him well over the years agree that he is insistent on making the important decisions himself. And they also agree that he is expected to make either the predictable decision or the one his advisers recommend to him.

Politics, however, is the business of perceptions. And the president's credibility and future effectiveness can be greatly diminished if the perception that flourishes across the country is one of a president who is not keeping in touch with enough of the details.

As the reaction to the Social Security initiative showed, the voters always know whom to blame.

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Spies: choose with care

The Reagan administration has acted with appropriate dispatch in accepting the resignation of the CIA's chief of clandestine operations, Max Hugel, after former business associates accused him of improper stock market practices. One of the accusers said he had left a message warning the White House against appointing Mr. Hugel to the sensitive post — but had never heard back. Whatever the circumstances, the lesson is to tighten up on appointment procedures.

For one thing, it is essential that all information be unearthed that might subject a spy chieftain to blackmail threats. Mr. Hugel reportedly now says he had received such threats in the past, though he did not disclose them to the CIA during his security clearance.

A Reagan aide noted that Mr. Hugel had not been chosen by the President but by Wil-

liam Casey, director of the CIA. Mr. Casey himself is burdened by a federal court judgment that he participated in an investment venture involving misrepresentation. The ruling is being appealed. Clearly Mr. Reagan — and the public — must be assured that the head of US intelligence does not have chinks in his credibility.

In the Hugel case the Reagan people, unlike some previous administrations, are not risking lingering damage by hanging onto an official under a cloud. The accusations against Mr. Hugel, which he has publicly denied, can now be evaluated on their merits, separate from political pressures. The swift appointment of a successor (career intelligence officer John Stein) permits the undelayed resumption of authorized secret activities that had been under Hugel jurisdiction.

EDITORIALS.

The CIA does it again!

For our money, the smartest move Republican businessman Max Hugel made during his brief career as head of the CIA's cloak-and-dagger department was his decision to quit.

Hugel insists that the charges of stock manipulation that prompted his resignation are "unproven and untrue." What clearly is true, though, is that however effective he may have been as a Reagan campaign worker, Hugel had no experience at all in high-level espionage work and no visible qualifications for it.

In fact, Hugel's original appointment seems to us to reflect a serious error in judgment on the part of CIA chief William Casey—who himself is

now contesting a federal judge's conclusion that he knowingly misled investors in one of his business ventures some years back.

Hugel's resignation has at least given Casey a chance to correct his earlier mistake—and that he appears to have done by promptly replacing Hugel with a highly respected career intelligence officer named John Stein.

All the same, this whole uproar is bound to set back President Reagan's campaign to rebuild public confidence in the CIA. Because of the agency's monumental intelligence failure in Iran and widespread publicity about its illegal activities in the '60s and '70s, Reagan was already fighting something of an uphill battle in this respect. And the latest revelation that a CIA security check on Hugel somehow failed to turn up any hint of the improper behavior of which he is accused can only make the job even tougher.

After all, if our spooks can't even run down the public record on a U.S. businessman, what kind of dope can we expect from them about what's going on in the Kremlin?

